

3/8 Privacy Cmte Hearing

AB563

Rep. Schneider

- info sharing
- access to DMV, medical records
- some degree of regulation
- his amendment: an opt-in

Clearinghouse Rules

Kinger Karson

SB379 - Ken Johnson S WLB

CCA investment

- no longer make investments in this type of company
- concerned that placing restrictions is a bad precedent to set

Senator Moore

- conflict of interest
- could be coordination
- \$18 million

Ed Blume - Criminal Defense Lawyers

- constitutional right to an impartial trial in fact + appearance

Rev. Sam Jones

- inmates as lifetime laborers
- conflict of interest

AB563

→ Senator Moore

- CRA

- Rulemaking / leg oversight

- Loan loss from 3 yrs → 2 yrs

Consequences of switching to a federal charter:

- exam. fees → GPR

- lack of regulatory control

→ Representative Jeskewitz

- loss of federal charter

- how to regulate them?

→ John Knight, Joe Zaffino, Ron Jodat

→ Capitalization std

→ CRA

→ no sharing of ^{medical} health info (opt-out)

→ Subsidiary then subsidiary: notify DFI - ^{60 days to} say yes or no

→ Some rulemaking added: as revised "reasonably, related powers" must be defined

• What does rulemaking add? The only real question is - "is it a federal power?"

- DFI already has controls to do what it needs to do

Privacy: transfer of info b/w affiliates

• Congress has said until 2004, states can't limit transfer info b/w affiliates

Cross-market (discriminating): not fair, if others aren't subject to the same restrictions

(*) Opt out / opt in are the same

- Fed regulators haven't adequately addressed privacy - sharing info w/ non-affiliated third party

3/8

AB563

~ \$20,000/yr in examination fees
\$20K is the low end

An opt-in will kill the bill ~~2~~ — he acknowledges that
— Would an opt-out be acceptable? —

John Knight [— federal law has preempted the ability of
our state to do anything until
2004

Is the information necessary to have?

yes — we won't sell it.

⊛ His concern is privacy — no way to ensure
that it will ~~be~~ meet for's needs

Privacy policies — what kinds of options do
consumers have?

→ This is the only real concern you have about
the bill.

— wants to work on privacy angle
— "extremely irresponsible for this
to move forward w/o these
issues resolved"

Mike Mach — Doesn't impact viability of CU state
charter, but it does for UBB

— party
— state charter is 1/2 cost of federal
\$100m \$24K in assessments (over 3yrs)
state

12% goes to GPR
For total dept: Mike Mach's area?

TOOK IN
about \$2M
— \$200K to
GPR

3/8

AB503

Plache: Why should we care if banks have a state charter?

- strong nonfiscal incentives: judged
+ based on other NI financial
institutions

- UBB

- Will get back to us on specific numbers?

- Mike Mach

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3/8/00
BILL NO. AB 563
OR
SUBJECT _____

Mike Mach
(NAME)
345 W. Washenston
(Street Address or Route Number)

Madison, WI 53708
(City and Zip Code)
Dept of Financial Institutions
(Representing) Division of Banking

Speaking in Favor: ☐
Speaking Against: ☐
Registering in Favor: ☐
but not speaking:
Registering Against: ☐
but not speaking:
Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

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DATE: 3-8-00
BILL NO. AB 563
OR
SUBJECT _____

Rep. Sam Jeskowitz
(NAME)
W. Sen. Moore
(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ☒
Speaking Against: ☐
Registering in Favor: ☐
but not speaking:
Registering Against: ☐
but not speaking:
Speaking for information only; Neither for nor against: ☐

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DATE: 3/8/2000
BILL NO. AB 563
OR
SUBJECT _____

Sen Gwen Moore
(NAME)
State Capitol
(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ☒
Speaking Against: ☐
Registering in Favor: ☐
but not speaking:
Registering Against: ☐
but not speaking:
Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

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DATE: 3/8/2000

BILL NO. AB 563

OR
SUBJECT

MICHAEL MACCH
(NAME)

345 W. WASHINGTON
(Street Address or Route Number)

MADISON 53703
(City and Zip Code)

DFI
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information
only; Neither for nor against: ☐

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DATE: 3/8/00

BILL NO. AB 563

OR
SUBJECT

JOHN KNIGHT
(NAME)

50 Packerway
(Street Address or Route Number)

MADISON
(City and Zip Code)

WI BARTERS ASSOC
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information
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DATE: 3/8/00

BILL NO. AB 563

OR
SUBJECT

Financial

Joseph K. Zetland
(NAME)

1020 Blue Ridge Tr
(Street Address or Route Number)

Wausaukee, WI 53597
(City and Zip Code)

Wisconsin Barter Association
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information
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SENATE HEARING SLIP

(Please Print Plainly)

DATE: MARCH 8, 2000

BILL NO. AB 563

OR

SUBJECT UNIVERSAL BANK

RONALD W. JORDAN
(NAME)

5733 N. LAKE DR
(Street Address or Route Number)

WHITEFISH BAY, WI 53217
(City and Zip Code)

MARITIME SAVINGS BANK
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

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(Please Print Plainly)

DATE: 3/8/00

BILL NO. AB 563

OR

SUBJECT _____

MARLON SCHNEIDER
(NAME)

3820 Southbrook Lane
(Street Address or Route Number)

Wis. Rapids
(City and Zip Code)

22nd Assembly Dist
(Representing)

Speaking in Favor: ☐

Speaking Against: ☒

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information
only; Neither for nor against: ☐

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(Please Print Plainly)

DATE: MARCH 8, 2000

BILL NO. AB-563

OR

SUBJECT _____

HARRY J. ARGUE
(NAME)

P.O. Box 8880
(Street Address or Route Number)

MADISON 53708
(City and Zip Code)

WISC. BANKERS ASSN
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

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DATE: 3-8-00

BILL NO. AB 563
OR

SUBJECT _____

MICHAEL HEUSER
(NAME)

1341 MANASSAS
(Street Address or Route Number)

MADISON, WI 53718
(City and Zip Code)

ANCHOR BANK
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

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only; Neither for nor against: ☐

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DATE: 3/8/00

BILL NO. AB 563
OR

SUBJECT _____

MARK TIMERMAD
(NAME)

25 W MAIN ST
(Street Address or Route Number)

MADISON WI 53703
(City and Zip Code)

ANCHOR BANK SSB
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

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(Please Print Plainly)

DATE: 3/8/00

BILL NO. AB 563
OR

SUBJECT _____

ER KINNEY
(NAME)

2368 E. 4TH D.
(Street Address or Route Number)

FITCHBURG WI 53711
(City and Zip Code)

ANCHOR BANK
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information
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DATE:

3/8/00

BILL NO.

AB 563

OR

SUBJECT

BRIAN ZIMMERS

(NAME)

2778 RICHARDSON ST

(Street Address or Route Number)

FITCHBURG WI 53711

(City and Zip Code)

Anchor Bank

(Representing)

Speaking in Favor:

☐

Speaking Against:

☐

Registering in Favor:

but not speaking:

☒

Registering Against:

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☐

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DATE:

3/8/00

BILL NO.

AB 563

OR

SUBJECT

BOB HALBLEIB

(NAME)

3020 STAMFORD PLACE

(Street Address or Route Number)

FITCHBURG, WI 53711

(City and Zip Code)

Anchor Bank

(Representing)

Speaking in Favor:

☐

Speaking Against:

☐

Registering in Favor:

but not speaking:

☒

Registering Against:

but not speaking:

☐

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DATE:

3-8-00

BILL NO.

AB 563

OR

SUBJECT

DOUGLAS TIMMERMAN

(NAME)

9026 ASPEN GROVE LN

(Street Address or Route Number)

MADISON, WI 53717

(City and Zip Code)

Anchor Bank

(Representing)

Speaking in Favor:

☐

Speaking Against:

☐

Registering in Favor:

but not speaking:

☒

Registering Against:

but not speaking:

☐

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SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3-8-00

BILL NO. ARS 63

OR

SUBJECT _____

Senator Gary Dzwiecki

(NAME)

(Street Address or Route Number)

(City and Zip Code)

30th Senak District

(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:

but not speaking:

☒

Registering Against:

but not speaking:

☐

Speaking for information

only; Neither for nor against:

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(Please Print Plainly)

DATE: 3-8-00

BILL NO. SB 563

OR

SUBJECT Universal Banking

Senator Peggy Rosenzweig

(NAME)

(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:

but not speaking:

☒

Registering Against:

but not speaking:

☐

Speaking for information

only; Neither for nor against:

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(Please Print Plainly)

DATE: 3-8-00

BILL NO. AB 563

OR

SUBJECT _____

Peter Aarsvold

(NAME)

(Street Address or Route Number)

317 Jenna Dr

(City and Zip Code)

Verona WI 53593
Anchor Bank

(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:

but not speaking:

☒

Registering Against:

but not speaking:

☐

Speaking for information

only; Neither for nor against:

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(Please Print Plainly)

DATE: 3/8/00

BILL NO. AB 563

OR

SUBJECT _____

JOE Cegeleski
(NAME)

700 Tamarack Way
(Street Address or Route Number)

VERONA 53593
(City and Zip Code)

AUCOR BANK
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information
only; Neither for nor against: ☐

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(Please Print Plainly)

DATE: 3/8/00

BILL NO. AB 563

OR

SUBJECT _____

James B. Hough
(NAME)

10 E. Doty St. #502
(Street Address or Route Number)

MADISON 53703
(City and Zip Code)

WI Mortgage Bankers Assn.
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information
only; Neither for nor against: ☐

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DATE: 3-8-00

BILL NO. AB 563

OR

SUBJECT _____

Tim Elverman
(NAME)

44 E. Main St. #64
(Street Address or Route Number)

MADISON WI 53711
(City and Zip Code)

BANK ONE
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information
only; Neither for nor against: ☐

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SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3/08/00

BILL NO. 563

OR

SUBJECT _____

J. Anthony Cottelino
(NAME)

1107 Wellesley Road
(Street Address or Route Number)

Madison 53705
(City and Zip Code)

Am. Bank
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information
only; Neither for nor against: ☐

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Madison, WI 53707-7882

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(Please Print Plainly)

DATE: 3/8/00

BILL NO. 563

OR

SUBJECT Universal Bank

Bill AB 563

(NAME)

ALLEN KNUTH

(Street Address or Route Number)

942 S. PARK AVE.

FOND DU LAC WI 54935

(City and Zip Code)

(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

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DATE: 3/8/00

BILL NO. AB 563

or

SUBJECT _____

DAVID B. PHILLIPS
(NAME)

25 ELVER CT.
(Street Address or Route Number)

MADISON WI 53719
(City and Zip Code)

CAPITOL BANK
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

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SENATE HEARING SLIP

(Please Print Plainly)

DATE: 8 March 2000

BILL NO. AB 563

or

SUBJECT _____

M. Colleen Wilson
(NAME)

330 E. Lakeside Street
(Street Address or Route Number)

Madison 53715
(City and Zip Code)

State Medical Society of WI
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Written testimony
Speaking for information
only; Neither for nor against: ☒

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Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882



TO: State Senator Jon Erpenbach, Chair
Members, Senate Committee on Privacy,
Electronic Commerce and Financial Institutions

FROM: M. Colleen Wilson, Legislative Counsel
Public Affairs

RE: Assembly Bill 563

DATE: March 8, 2000

The State Medical Society of Wisconsin greatly appreciates the opportunity to share some concerns about the implications of AB 563 on the physician-patient relationship. The State Medical Society is concerned that AB 563 will make confidential patient medical information widely available, thereby jeopardizing the ability of physicians to provide optimal care for their patients.

It is imperative that policy makers appreciate the importance of the physician-patient relationship in the provision of care. Physicians are now blessed with myriad technical advances in diagnostic tools and ever-increasing knowledge of causes of disease, and human physiology. Indeed, these advances have allowed vast improvements in how physicians diagnose and treat illness, injury and disease.

However, a crucial element of the overall diagnostic picture is the patient's subjective description of symptoms, and a patient's recollection of events or activities leading up to a physician visit. In combination with a physical examination and a physician's professional knowledge, experience and judgement, this information relayed by the patient often allows a physician to make a diagnosis when technology alone does not. In fact, about 95% of patient illnesses can be diagnosed by taking a patient history.

If for any reason a patient does not feel comfortable providing what may be sensitive information to a physician, the diagnosis and the care provided may well be compromised. Therein lies our concern with AB 563. If patients believe the information insurance companies receive so that benefits can be provided will go beyond the insurer, and possibly be used against them in financial matters, they will be less likely to share the information physicians need to provide high quality care.

The SMS believes that as drafted AB 563 will create opportunities for patients' confidential medical information collected by insurers to move laterally through a company and its affiliates without patient consent or knowledge. Not only does this jeopardize the ability of a physician to care for his/her patients, more importantly, it jeopardizes patients health and well-being.

The State Medical Society believes that AB 563 should be amended to expressly prohibit the transfer of medical information, even among affiliates, without explicit patient consent, as well as to provide substantial penalties for violations of that express prohibition. Individuals should have the affirmative right to direct who has access to their information, particularly outside of the therapeutic and payment context.

The State Medical Society appreciates the opportunity to express these concerns about AB 563. We are happy to work with Committee members to address these important health care issues.

State Senator **GWENDOLYNNE MOORE**



Capitol Office:
P. O. Box 7882, Madison, WI 53707-7882
Phone: (608) 266-5810 Fax: (608) 267-2353
District Telephone: (414) 442-3080
Toll-free Legislative Hotline: 1-800-362-9472
E-Mail: sen.moore@legis.state.wi.us
Member: Joint Finance Committee
Board Member: Wisconsin Housing and
Economic Development Authority

March 8, 2000

Testimony before the
Senate Privacy, Electronic Commerce
and Financial Institutions Committee

In support of AB 563

By Senator Gwendolynne Moore

Thank you Chairman Erpenbach and members of the committee for this opportunity to testify. Representative Jeskewitz and I appreciate your willingness to schedule this bill for a hearing.

As you are aware, Congress just recently enacted sweeping financial modernization legislation that gives national banks and federal savings banks the power to offer "any financial product." The Universal Bank bill is a parity bill. It gives our 335 state-chartered banks and savings banks the same powers as their federal counterparts.

Currently, state-chartered institutions don't have this authority. In order to remain competitive, state-regulated institutions need this parity legislation to level-the-playing-field with the federally regulated institutions.

Assembly Bill 563 passed the Assembly with a 96-1 vote. The strong bipartisan support the legislation received reflects the importance of protecting Wisconsin's state-chartered banks and savings banks. It also reflects our willingness; as sponsors of the bill; to make numerous alterations in order to satisfy concerns raised during the Assembly hearing and in numerous discussions and meetings.

- 1) One change is on an issue that all of you know is very important to me. I worked with Rep. Johnnie Morris-Tatum, who is a member of the Assembly Financial Institutions Committee, on an amendment that makes compliance with the federal Community Reinvestment Act a qualifier for becoming a Universal Bank. This is important change because it is added insurance for disadvantaged districts—like mine—that banks and savings banks will continue to meet the credit needs of their communities.
- 2) Language was also added in the Assembly bill that gives the Department of Financial Institutions the power to decertify a Universal Bank if an institution falls out of compliance with the CRA requirement or other qualifiers for becoming a Universal Bank.
- 3) Additional adjustments to the bill were designed to reinforce parity with the recently enacted federal law. For example, we changed the capitalization requirements so that only a "well-capitalized" financial institution is eligible to become a Universal Bank. This change parallels the federal law.
- 4) We also changed the way a Universal Bank is given additional powers. As amended, this bill requires a Universal Bank to request permission from DFI to engage in a power already granted to federal institutions. DFI is then required to either grant or deny the parity power within 60 days of receiving the request. This change was made to create accountability for DFI and to strengthen overall regulatory oversight of Universal Banks.

- 5) Finally, we added an amendment that prohibits the sharing of medical information in the loan approval process. This satisfies a concern raised in the Assembly that a Universal Bank might use medical information from its insurance affiliate to determine credit worthiness. This amendment actually goes beyond the privacy restrictions in the federal law.
- 6) An assembly amendment restores the provision that a loan under the expanded category of permissible lending is not subject to classification as a loss for a period of 2 years from the date

Another privacy related amendment was rejected on the Assembly floor because it went beyond the federal law and destroys parity. The amendment would have restricted the sharing of information among Universal Bank's affiliates, as well as, to a third party vendor. If the amendment was included in this bill small banks would be hurt because they sometimes use a third party vendor to help market their products. Many of the larger banks are capable of conducting their marketing in-house. The federal bill recognized this fact and specifically exempted third party marketers from new privacy restrictions in order to help keep community banks competitive with larger institutions. The Universal Banking Bill does require an opt-out provision that requires all Financial Institutions to give their customers the option not to have non-public information shared with "nonaffiliated third parties."

Interesting enough, both CEOs of these institutions say they would have become a state-chartered Universal Bank if that option were available to them. Passing this bill gives them that option.

Failure to pass this legislation may mean more banks may well follow Mutual Savings' and First Northern Savings' lead and convert to federal institutions. Wisconsin will lose under this scenario because state-regulated financial institutions pay exam fees and other assessments to the Department of Financial Institutions (DFI) and a portion of those fees are transferred to the state's General Purpose Revenue (GPR) fund. Further, it also means regulatory control could shift from Madison to Washington, DC.

I urge you to protect the future of state-chartered institutions and join me in supporting the Universal Bank bill.



WISCONSIN LEGISLATIVE COUNCIL STAFF MEMORANDUM

One East Main Street, Suite 401; P.O. Box 2536; Madison, WI 53701-2536

Telephone: (608) 266-1304

Fax: (608) 266-3830

Email: leg.council@legis.state.wi.us

DATE: March 7, 2000

TO: REPRESENTATIVE SUZANNE JESKEWITZ

FROM: Ronald Sklansky, Senior Staff Attorney

SUBJECT: Assembly Amendments 1 and 2 to 1999 Assembly Bill 563, Relating to the Creation of a New Type of Financial Institution

This memorandum, prepared at your request, describes the provisions of Assembly Amendments 1 and 2 to 1999 Assembly Bill 563.

Assembly Amendment 1 makes the following changes to Assembly Bill 563:

1. *Assembly Bill 563* requires an applicant for a universal bank certification to meet certain eligibility conditions. Once the financial institution becomes a universal bank, the eligibility conditions must be maintained. If the conditions are not maintained, the Division of Banking may by order limit or restrict the exercise of the powers of a universal bank. *Assembly Amendment 1* adds as a condition of eligibility the requirement that a financial institution has received a rating of "outstanding" or "satisfactory" under the Federal Community Reinvestment Act. The Assembly amendment also clarifies that all of the eligibility conditions must be met and maintained. [See items 3., 4. and 6. of Assembly Amendment 1.]

2. *Assembly Bill 563* provides that if a universal bank does not maintain the eligibility conditions specified in the bill, the Division of Banking may by order limit or restrict the exercise of the powers of the universal bank. *Assembly Amendment 1* provides that, in this situation, the Division of Banking must, rather than may, limit or restrict the exercise of powers of the universal bank and provides that the Division of Banking may by order revoke a universal bank's certificate of authority. Finally, the Assembly amendment provides that the Department of Financial Institutions in its annual report to the Legislature must include information regarding the number of times the Division of Banking has exercised its authority to limit, restrict or revoke the authority of universal banks. [See items 1., 7., 8., 9., 10. and 17. of Assembly Amendment 1.]

(OVER)

3. *Assembly Bill 563* provides that a financial institution that is either well capitalized or adequately capitalized may become a universal bank. *Assembly Amendment 1* provides that only a well capitalized financial institution may become a universal bank. [See items 2., 5. and 17. of Assembly Amendment 1.]

4. *Assembly Bill 563* provides that a universal bank may exercise any power that is exercised by a federally chartered savings bank, savings and loan association or national bank. The bill also, in general, authorizes a universal bank to engage in various activities reasonably related or incident to the purposes of the universal bank. These powers and activities may be undertaken following written notice to the Division of Banking. With respect to a power exercised by a federal financial institution, *Assembly Amendment 1* clarifies that: (a) when a federal financial institution must exercise a power through a subsidiary, the universal bank may only exercise the same power through a subsidiary; and (b) the universal bank must notify the Division of Banking of its intent to exercise a power and the Division of Banking must, within 60 days unless the time period is extended by mutual agreement, either approve or disapprove the exercise of the power. The exercise of the power will be approved if the power may be exercised by a federal financial institution and will be disapproved if it may not be exercised by a federal financial institution. With respect to the exercise of an activity reasonably related or incident to the purposes of a universal bank, the Assembly amendment clarifies that, prior to exercising an activity not otherwise specifically provided for in the bill, the activity must be approved by the Department of Financial Institutions through an administrative rule that is promulgated through the use of the emergency rule-making process, but which will last indefinitely. [See items 11., 12., 14. to 17. and 19. to 22. of Assembly Amendment 1.]

5. Current law in general provides that a debt to a bank, on which interest is past due and unpaid for a period of 12 months, must be considered a bad debt and must be charged off to the profit and loss account at the expiration of one year from the date on which the loan became past due. Current law also provides that for a special category of state bank lending, a loan is not subject to the "bad debt" statute or to classification as a loss for a period of two years from the date of the loan. *Assembly Bill 563* increases this delay in the application of the "bad debt" provisions to a period of three years from the date of the loan. *Assembly Amendment 1* restores the provision that a loan under the expanded category of permissible lending is not subject to classification as a loss for a period of two years from the date of the loan. [See item 13. of Assembly Amendment 1.]

Assembly Amendment 2 provides that, in determining whether to make a loan or extension of credit, a universal bank may *not* consider any health information obtained from the records of an affiliate of the universal bank that is engaged in the business of insurance, unless the person to whom the health information relates consents to that consideration. Recent federal legislation specifically authorizes a state to enact such a provision. [See P.L. 106-102, the Gramm-Leach-Bliley Act, at SECTION 104 (d) (2).]

If I can be of any further assistance in this matter, please feel free to contact me.

RS:jal:tlu:ksm;wu



**Testimony before the
Senate Privacy, Electronic Commerce &
Financial Institutions Committee**

**In Support of AB 563
Universal Bank Bill**

**10:00 a.m., March 8, 2000
by Joseph R. Zaffino, Bank of Waunakee
and
Dr. Ronald Jodat, Maritime Savings Bank, West Allis**

Mr. Chairman and members of the Committee, my name is Joe Zaffino. I am executive vice president with the Bank of Waunakee. However, I appear before you today primarily in my capacity as the current chair of the Wisconsin Bankers Association's Government Relations Committee.

Appearing with me is Ron Jodat, the Chairman of Maritime Savings Bank in West Allis and John Knight from the Boardman Law Firm here in Madison. John is the technical expert of this legislation and will provide a summary of the changes made to it in the Assembly.

We appear in support of the Universal Bank bill for a variety of reasons, but most importantly, because it insures that state-chartered taxpaying financial institutions are always on an equal footing with our federal counterparts.

As most of you probably know, Congress recently enacted landmark banking reform legislation called the Gramm-Leach-Bliley of 1999. This bill significantly expands the powers of federally chartered financial institutions and other financial service providers.

Most notably, Gramm-Leach-Bliley opens the door for national banks and federal thrifts to offer "any financial product" through an affiliate.

Both state-chartered banks and thrifts have so-called wild card provisions in our respective statutes that grant the authority to offer the same products and services as federally chartered institutions, but only after the Department of Financial Institutions approves it through the Administrative Rules process. This can be a lengthy procedure and simply doesn't create true parity for state-chartered institutions.

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Simply put, Gramm-Leach-Bliley will force state-chartered institutions – like mine and Joe’s – to evaluate our options. If the Wisconsin Legislature fails to enact Universal Bank, one of those options will be to convert to a national bank or federal thrift charter in order to take full advantage of Gramm-Leach-Bliley.

We would prefer to remain state-chartered institutions but the competitiveness of the financial marketplace dictates that personal loyalties be secondary to sound business decisions.

The Universal Bank concept is truly the future of state-chartered institutions not just in Wisconsin but nationwide. Several states, including Illinois, have already enacted similar legislation in order to prepare their financial institutions for the new century. Wisconsin should do the same.

In addition to granting true parity between state and federal taxpaying institutions, this bill does three other important things:

- It creates equal powers for all taxpaying financial institutions. Under current law, commercial banks, savings banks and savings & loans have different powers. This bill grants all taxpaying state-chartered institutions that hold a Universal Bank certificate the same authorities.
- It gives DFI additional authorities to regulate the activities of a Universal Bank. That is important to continue Wisconsin’s tradition of safe and sound financial institutions.
- And it also gives state-chartered institutions the ability to react to a rapidly changing financial marketplace. No one knows what products and services consumers will expect from their financial institution in the future. But this bill gives us the flexibility to adjust to meet our customers’ evolving needs.

Let me conclude by stating that by enacting Gramm-Leach-Bliley, Congress has taken the first step to prepare Wisconsin’s nearly 400 taxpaying financial institutions for the new century. But true banking reform cannot be achieved unless the Wisconsin Legislature gives state-chartered institutions parity by enacting the Universal Bank bill.



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, Governor

John F. Kundert, Secretary

Testimony to

SENATE
COMMITTEE ON PRIVACY, ELECTRONIC COMMERCE AND FINANCIAL INSTITUTIONS

Michael J. Mach, Administrator
Division of Banking
Department of Financial Institutions
March 8, 2000

Senator Erpenbach and committee members, thank you for the opportunity to testify on Assembly Bill 563.

As the administrator of the Division of Banking, I am responsible for the supervision and regulation of Wisconsin's state-chartered banks. Assembly Bill 563, or the Universal Bank Bill, is extremely important to the maintaining the viability of the state charter. Before I get into the specifics of the bill, let me discuss briefly why this is so important to Wisconsin's citizens, and why my 49 colleagues from across the country and I fight so vigorously for the dual banking system

The term "dual banking system" refers to the independent ability of both state and federal governments to charter, regulate and supervise banks for the good of their citizens. The American dual banking system is unique in the world and for the past 138 years has fostered entrepreneurship, competition and innovation in the banking industry and has served the public well. The choice of charters encourages entry into the banking industry and consumers, businesses, and the economy as a whole benefit from the ability to choose among a wide range of financial service providers. A key feature of the dual banking system is that banks may not only choose their charters initially, but may also convert from one charter to another. The existence of two separate, but parallel regulatory systems advances professionalism, innovation, efficiency, responsiveness, and flexibility in the bank regulatory system.

A primary benefit of state regulation is its focus on local issues and the community. This is a major reason that the vast majority of new banks continue to choose a state charter to begin their operations and the reason that a vast majority of banks in this state are state-chartered banks. State regulation fits well with community-based banking with its acknowledgement of local and regional differences and its refusal to operate as if one size fits all. The fact remains that every banking transaction is personal, directly involving one individual or one business that lives in a community and is connected to the individuals or businesses around it. State regulation understands the immediate effect that financial decisions and conditions have on these individuals and businesses.

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The advantage of state regulation is supported by five pillars, which are knowledge, accessibility, flexibility, powers, and cost. The first three pillars -- knowledge, accessibility, and flexibility remain strong. However, developments at the federal level have threatened the strength of the pillars of powers and cost.

Generally, the cost of regulation for a state-chartered bank is about one-half the cost the same bank would incur as a national bank. The administration in Washington has included in its budget proposal a federal examination fee on state-chartered banks that would eliminate this cost advantage and in effect punishes banks for choosing a state charter. While Congress has had little appetite for this idea in the past and we are hopeful that it will again be rejected, this continues to be of concern to state regulators.

Wisconsin has a tradition of progressive banking laws and strong financial institutions. The passage of Gramm-Leach-Bliley Financial Modernization Act of 1999 has diminished the advantage traditionally enjoyed by Wisconsin's state-chartered banks. While in some cases Gramm-Leach-Bliley only provides powers to national banks that Wisconsin state-chartered banks have long been able to exercise, it does provide for the prospective approval of financially related activities by the federal banking regulators. This is the component of Gramm-Leach-Bliley that makes the Universal Banking Bill so important to Wisconsin's state-chartered banks.

The Universal Bank bill does two important things. First, it creates a level playing field for Wisconsin's state-chartered banks, savings banks, and savings and loans. It blends the powers and activities of these three charters and will put Wisconsin's thrift institutions on equal footing with commercial banks. Next it insures that Wisconsin's state-charted institutions will not be put at a competitive disadvantage to federally chartered institutions.

It is my understanding that there is concern about what activities the federal banking regulators may approve, and how this might eventually impact our state-chartered banks. I think it is helpful to look who these federal regulators are that will be approving these financially related powers. First, there is Jerry Hawke, Comptroller of the Currency and former chief counsel to the Federal Reserve Board. Mr. Hawke is responsible for the safety and soundness of national banks. Is he going to approve a power or activity the poses an unreasonable risk to the banks under his supervision? I think the answer to that question is - no. Next there is Donna Tanoue, Chairman of the FDIC and former commissioner of banking from the State of Hawaii. Ms. Tanoue is responsible for the strength and adequacy of the deposit insurance funds. Is she going to approve powers and activities that could potentially result in losses to the insurance funds? I think the answer to that question is - no. Finally, there is Alan Greenspan, Chairman of the Federal Reserve. He is responsible for implementing the nation's monetary policy and insuring the integrity of the nation's payment system. Is he going to approve powers and activities that are going to jeopardize the nation's financial system? I think the answer to that question is - no.

My utmost concern as I reviewed this bill was its potential impact upon the safety and soundness of the banks that I regulate. Let me assure you that I have a high comfort level with this bill. Only the most well managed and financially strong institutions may be considered for certification as universal banks. The division has the ability to approve or deny activities for individual banks based on the bank's management expertise to engage in the activities. The division may limit activities, require that activities be conducted in a subsidiary, and may revoke the bank's certification as a universal bank.

Finally, as state-chartered institutions the banks certified as universal banks remain subject to the full enforcement authority of the division.

In conclusion, I believe that it is important to the state that banks continue to be state-chartered. The Universal Bank Bill will keep the state charter viable and will continue to make the state charter the charter of choice.



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MAK 06 2000

March 3, 2000

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Senator Jon Erpenbach
P.O. Box 7882
Madison, WI 53707

Re: Universal Bank bill AB 563

Dear Senator Erpenbach:

Please convey my support for AB 563 to your committee. I testified before the assembly committee and would have appeared before your committee except that I had made previous arrangements to be in Washington, D.C.

I was chairman of the Wisconsin League of Financial Institutions when the legislation was formulated by the league and the Wisconsin Bankers Association. It is a landmark effort by Wisconsin institutions, banks and thrifts to preserve the long standing tradition of safe, sound Wisconsin financial institutions. The Universal Bank Bill brings together thrifts and banks in a common effort to preserve the dual (State and Federal) financial system.

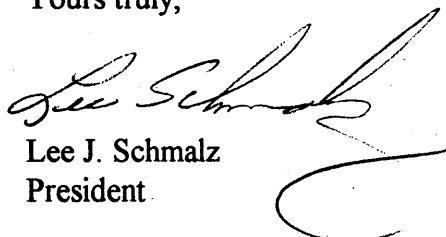
The Wisconsin legislature and financial supervision departments can look back in history and be proud of Wisconsin's strong financial institutions. We need to carry that tradition forward, continuing to provide the powers for Wisconsin financial institutions to bring to the public innovative and competitive products.

AB 563 will provide a valuable choice for our institutions that many states no longer provide. I hope that any objections will be constructive and amend the legislation positively that we may pass this legislation.

I trust you and your committee will pass legislation that Wisconsin can hold up to other states as responsible landmark financial legislation benefiting the industry and the public.

Thank you for your consideration.

Yours truly,



Lee J. Schmalz
President

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March 3, 2000

MAR 06 2000

Senator Jon Erpenbach
PO Box 7882
Madison, WI 53707-7882

Dear Senator ~~Erpenbach~~: *Jon*

It is my understanding that the Senate Privacy, Electronic Commerce and Financial Institutions committee will be holding hearing on AB 563, Universal Banks on March 8. Unfortunately I will be unavailable to attend the hearing.

Please register the Community Bankers of Wisconsin in support of AB 563. Our support of the bill is based upon the fact that we believe this bill strengthens the state charter for Wisconsin banks and savings institutions. With the passage of the Gramm-Leach-Bliley Act of 1999 federally chartered financial institutions were granted additional powers. Under AB 563 state chartered institutions would gain parity with federal charters.

CBW respectfully requests your support of AB 563. Thank you for your consideration.

Sincerely,

Daryll

Daryll J. Lund
President & CEO